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C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 000350

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [MO](#) [HK](#)

SUBJECT: MACAU GAMING COMPANIES TRY TO COOPERATE, SET UP INDUSTRY ASSOCIATION

REF: A. HONG KONG 283

[¶](#)B. HONG KONG 166

[¶](#)C. 08 HONG KONG 1962

Classified By: Consul General Joe Donovan, reasons 1.4 (b) and (d)

[¶](#)1. (C) Summary: Prompted by Macau Chief Executive (CE) Edmund Ho, all six of Macau's gaming concessionaires agreed on February 23 to establish an industry association. The group's first chairman will be local gaming billionaire Stanley Ho (no relation to CE Ho). The three U.S. gaming concessionaires in Macau (i.e. Las Vegas Sands, Wynn and MGM) are examining U.S. anti-trust statutes and Nevada gaming regulations to determine the extent to which they may participate in the new Macau association. The GOM recently announced that Macau's 40 percent tax rate on gaming revenues generated over three-fourths of the government's total revenues in 2008. The GOM's 2008 budget surplus totaled USD 3.1 billion (MOP 25.1 billion). End summary.

[¶](#)2. (C) Comment: If successfully established as a truly cooperative mechanism, the concessionaires' new gaming association would provide a private forum to air disputes between gaming companies in Macau. While industry observers believe the association could also serve as a first step toward constraining the wealth accumulation and political influence of junket operators, we believe that may prove elusive. The gaming companies rely on junket-sourced gamblers for up to 75 percent of their profits, and the concessionaires aggressively compete against each other for the junkets' business. Over half of GOM revenues are derived from junket-sourced VIP gamblers, and the GOM has proven itself either incapable or unwilling to rein in the junkets (refs B and C). End comment.

Jostling Macau Casinos Form Association

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[¶](#)3. (C) In a February 23 meeting at a hotel/casino in Macau owned by local billionaire Stanley Ho, all six of Macau's official gaming concessionaires agreed to set up a commercial association to discuss trade issues, promote common interests and strengthen their mutual communication. Ho announced the agreement and said the concessionaires unanimously agreed to install him as the group's first chairman. He said CE Ho suggested establishment of the association to him during the preceding week. The announcement came on the heels of the CG's gaming-related meeting with CE Ho on February 13 (ref A). MGM Macau President Grant Bowie (protect) told us on February 24 that the Consul General's meeting with the Chief Executive "likely influenced the CE's decision to request establishment of the association."

[¶](#)4. (C) Macau's new gaming association is to be set up as soon as possible, with the sextet's next meeting to occur by March

¶16. Stanley Ho said the concessionaires want to collectively suppress or reverse the growth of commission rates paid to junket operators, in an effort to moderate the junkets' strong influence over Macau's gaming market. Las Vegas Sands (LVS) President of Asian Development Eric Chiu (protect) told us the concessionaires tentatively agreed to cap junket commissions at 1.25 percent of the total amount bet by junket-sponsored gamblers. That amount is on the high end of the commission range currently paid to junket operators, and Chiu said the commission cap will be discussed again by the concessionaires within 90 days. Chiu said the three American gaming companies in Macau have asked their respective legal staffs in the United States to examine whether membership in the nascent Macau gaming association would violate U.S. anti-trust statutes or gaming regulations.

#### Junket Commissions Difficult to Reduce

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¶15. (C) Melco Crown Entertainment (MPEL) Senior Vice President of International Marketing Kelvin Tan told us on February 24 that the 1.25 percent informal cap on commissions will not hold. (Note: MPEL is a NASDAQ-traded entity that holds one of Macau's six gaming concessions. Later this year MPEL will open a multi-billion dollar hotel/casino complex - City of Dreams - across the street from The Venetian. The company's voting share ownership breaks down as follows: Australian publicly traded gaming company Crown Limited, 41 percent; Hong Kong-listed company Melco (majority owned by Stanley Ho and his 31-year-old son Lawrence), 41 percent; and public investors, 18 percent. End note.) Tan said, "The Las Vegas gaming companies created a monster when they entered Macau.

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They competed against each other to attract the largest junket operators with higher and higher commission payments, and now it'll be very difficult to step back."

¶16. (C) The GOM announced in 2008 that it would mandate and enforce a 1.25 percent cap on junket commissions, but Tan said the GOM has not implemented that requirement. Explaining the GOM's inaction, he said, "The government and all the concessionaires rely heavily on the junket operators for the bulk of their revenue streams. They won't make any big moves against the junkets."

#### GOM Taxes From Junket-Sourced Income

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¶17. (U) Taxes on gaming revenue increased significantly in 2008 and accounted for 78 percent of the GOM's total revenues of USD 6.4 billion (MOP 51.1 billion). Junket-sponsored VIP gamblers are widely believed to account for at least 65 percent of Macau's total gaming revenues. Therefore, junket operators play a direct role in sourcing more than 50 percent of the GOM's total revenue base (i.e., 78 percent multiplied by 65 percent). The GOM's 2008 budget surplus totaled USD 3.1 billion (MOP 25.1 billion).

DONOVAN